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Mexico

Market Development Reports

The Mexican Market for Fresh Fruit and Vegetables 2004

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Report Highlights:

Mexico imported over \$500 million in fresh fruits and vegetables in 2003, of which the US had a 74 percent market share, or \$380 million. The implementation of NAFTA has helped increase exports of fruits and vegetables almost 81 percent in the past ten years. Though the US is facing increasing competition to Mexico from domestic and South American producers, the market still provides excellent opportunities for US products.

Includes PSD Changes: No
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Mexico (MX)
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I. Market Overview

Mexico is the United States' third largest export market for agricultural commodities, and fruits and vegetables. In total, Mexican fruit and vegetable imports in 2003 were estimated to be \$513.3 million, of which the United States had \$380 million or a 74% market share. The implementation of NAFTA helped the increase of fruit and vegetable exports from the United States to Mexico some 81%.

Mexico is also the third most important supplier of fruits and vegetables to the United States. Worldwide, Mexico's annual exports of fruits and vegetables are estimated to be around \$3.2 billion. In 2003, Mexico sold an estimated 89% (\$2.84 billion) of its fruits and vegetables exports to the United States.

Table 1: Advantages and Challenges for US Exporters of Fresh Fruits and Vegetables to Mexico

Advantages	Challenges
Proximity resulting in fresher shipments	Strong third country competition primarily from Chile
Lower transportation costs than other countries	Implementation of non-tariff barriers and increased government support to farmers
Some in-country US produce associations working in marketing and promotions	Lower price of domestic products and high loyalty to buying locally grown products
Wider selection of varieties not available in Mexico	Lack of sufficient adequate storage facilities (cold rooms)
Lack of state of the art harvesting technology and limited arable land	Difficult to find a reliable importer/distributor in the market
Mexican population growth rate of 1.7% annually and fast economic growth	Inadequate handling procedures at the border affecting the quality of the products
Implementation of government programs to eat more fruits and vegetables per day	Free Trade Agreements between Mexico and over 30 other countries
Higher volumes of high quality standardized produce	Mexican farmers seeking to limit imports of fresh fruit and vegetables to protect their crops
Mexico's water availability problems and poor irrigation systems in most rural areas	Lower incomes and less purchasing power affect demand for high quality products

II. Market Sector Opportunities and Challenges

a. Domestic Competition

Mexico produces over 360 different varieties of fruits and vegetables. Fruit and vegetable production in 2003 was estimated to be 35% (\$8.5 billion) of Mexico's agricultural GDP and close to 95% of the Mexican consumption of fruits and vegetables are domestically produced. In addition to strong competition from domestic producers, Mexico's phytosanitary-related policies have increased import documentation requirements, closed certain border crossing points, and raised non-tariff barriers particularly to US products.

b. Imports and Foreign Competition

Mexico imports about 50 different kinds of fruits and vegetables. Mexico currently imports an average of 5% of its total consumption of fresh fruits and vegetables. However, for certain commodities, like apples and pears, Mexico's imports are a larger share of domestic consumption, 35% and 70% respectively.

US products have seen increasing competition in recent years primarily due to an increased number of free trade agreements (FTAs) signed by Mexico and more aggressive marketing by other countries. This is especially evident in the Mexican fruit import market because the United States' main competitor is Chile. In each of the selected fruits, Chile almost matched the United States' market share. However, in terms of the selected fresh vegetables, the United States holds a dominant position with well over 90% market share. For example, in 2001, the United States displaced Belgium to become Mexico's primary brussel sprout supplier. On the other hand, the Mexican Government has implemented some non-tariff barriers to certain US products such as apples, stone fruits, and citrus, which affect imports of these products.

According to Mexico's Secretariat of Agriculture statistics, Mexico's total imports during 2003 were estimated at \$408.5 million in fruits and \$106.8 million in vegetables, totaling \$513.3 million. On average, annual imports from the United States represent 70% of Mexico's total fresh fruit imports and 80% of imports of fresh vegetables. As mentioned above, these percentages differ between different fruits and vegetables. The tables below serve as a better indication of this statement.

**Table 2: Worldwide Mexican Imports of Select Vegetables 2001-2003
(Thousands of US Dollars)**

Product	2001	2002	2003
Potatoes	4,989.50	2,222.30	7,787.70
Tomatoes	30,047.80	19,658.30	12,335.40
Onions	12,556.20	17,148.70	19,201.60
Garlic	11,934.10	19,989.60	17,333.20
Lettuce	22,787.60	30,100.60	27,205.00
Cauliflower/Broccoli/Sprouts	7,784.10	9,022.10	9,176.60
Carrots	4,287.30	4,485.20	4,829.60

Source: Secretariat of Agriculture (SAGARPA)

**Table 3: US Import Market Share for Select Vegetables
2001-2003 (%)**

Product	2001	2002	2003
Potatoes	95.4	87.9	98.2
Tomatoes	100	99.6	99.8
Onions	99.9	100	99.6
Garlic	36.4	29.9	15.4
Lettuce	100	100	100
Cauliflower/Broccoli/Sprouts	99.9	100	100
Carrots	99.6	99.9	100

Source: US World Trade Atlas

**Table 4: Worldwide Mexican Imports of Select Fruits 2001-2003
(Thousands of US Dollars)**

Product	2001	2002	2003
Apples	178,895.80	140,533.60	147,376.20
Pears	61,240.20	67,456.60	68,007.60
Grapes	84,098.30	105,864.10	94,049.20
Apricots	5,701.90	4,726.30	4,475.90
Cherries	3,126.90	2,659.20	3,132.50
Peaches	30,904.80	32,515.20	36,523.50
Plums	12,965.70	14,676.90	16,471.90
Strawberries	13,135.10	14,486.60	14,379.40
Kiwis	7,516.60	8,698.90	7,780.20

Source: Secretariat of Agriculture (SAGARPA)

**Table 5: US Import Market Share for Select Fruits
2001-2003 (%)**

Product	2001	2002	2003
Apples	87.9	78.4	72.6
Pears	93.9	92.9	89.9
Grapes	52.4	54.8	49.7
Peaches/Nectarines	49.9	51.3	51.9
Cherries	49.9	38.9	52.3
Apricots	64.3	65.6	70.8
Plums	42.7	53.2	51.6
Strawberries	100	100	99.8
Kiwis	33.2	42.6	49.9

Source: US World Trade Atlas

c. Market Size and Structure

Mexico has over 104 million inhabitants, of which 55% are between 5 and 29 years old. Furthermore, the population is equally divided between men and women. The Mexico City metropolitan area has an estimated population of over 20 million. It has a concentration of economic, political and cultural resources not seen anywhere else in the country. The second largest city is Guadalajara, with 6.3 million people and located about 290 miles northwest of Mexico City. Monterrey occupies the next position with 4 million people, located in the northern border state of Nuevo Leon and is the center of Mexico's iron and steel industry.

Mexican consumption of fruits and vegetables has been growing at an annual rate of 1.9% for the past 5 years. Despite the large supply of fruits and vegetables available throughout the country, Mexicans only consume an average of two servings of fruits or vegetables per day. In response, Mexico's Secretariat of Agriculture has recently created a program called "Cinco por Dia" to mirror the famous US' "5 a Day" program aimed to promote a healthier diet among Mexicans.

A market study was conducted in Mexico City to provide a better overview of the target market for potential exporters. This market study, which consisted of questionnaires, was given to a group of 200 men and women randomly chosen at the entrance of three supermarkets, with three street markets located in different parts of the city. This group represented people with medium to high-income levels, and between 20 and 50 years of age. Of the people surveyed, 60% indicated they did not care if the product was domestic or imported. Secondly, Mexicans prefer quality to cost, and believe that domestic produce is higher quality and fresher because it does not have to be shipped. Lastly, Mexicans would consume more imported produce if it was affordable and there were a shortage of Mexican produce.

d. Company Profiles

In Mexico there are around 200 hundred companies that import fruits and vegetables, but 25 of these firms control 60% of the imports. These intermediaries sell their merchandise to other distributors and/or large processing companies; therefore, some of the large retail or wholesale chain stores do not import these products directly, but generally do so through importers. However, the large chains are moving towards direct imports through their distribution centers.

The Centrales de Abastos (Central Markets) throughout the country are major players in fresh fruit and vegetable distribution. Importers/distributors usually have branch offices at the Mexico City Central de Abastos. Local or regional distributors, or market places all around Mexico purchase these products because few are able to cover the whole country by themselves, due to lack of appropriate storage facilities. Over 80% of all fruit and vegetable trade takes place in these central markets. More than 40% of this trade takes place in the Mexico City market. The Central de Abastos in Mexico City has over 1,700 fresh fruit and vegetable warehouses and 6,000 wholesale merchandisers. This market receives over 3,000 truckloads and sells between 17,000 to 22,000 tons of fresh fruit and vegetables daily. The remaining 55% is distributed among 30 other central markets located around Mexico, with Guadalajara and Monterrey being the second and third largest respectively.

The major buyer of fruits and vegetables from the Central de Abastos in Mexico City are the public and street markets. These markets are comprised of stationary neighborhood markets, and ambulatory street markets called "tianguis", and together they account for 55% to 65% of purchase of fruits and vegetables. The next most important buyer is the

retail sector, which covers 35% to 45% of fruit and vegetable purchases from the Mexico City Central de Abastos. Of this total, national chains like Commercial Mexicana, Gigante, and Wal-Mex cover 70% of the retail sectors purchases; other chains like Chedraui, Casa Ley, and Soriana account for 20% of the purchases; and club stores like Costco cover 5% of the sector, but they are rapidly growing. The third most important buyers of fruits and vegetables from the Mexico City Central de Abastos are the mom & pop stores, and convenience stores that offer little selection, which account for less than 5% of total sales.

III. Entry Strategy

a. Business Culture

Mexico and the United States are neighbors, geographically speaking, but are worlds apart when it comes to culture. Doing business in Mexico can be easy, but also it can be quite complicated for an exporter from the United States for many reasons including a language barrier. Sometimes the difference between success and failure is just a matter of a positive attitude and patience.

The best way to understand the Mexican market is by visiting the country and talking to buyers, retailers, distributors, and other players in order to prepare a more effective entry strategy. US exporters must do their market research, which includes finding appropriate business contacts and thoroughly reviewing Mexican import regulations. An affordable way to investigate the market is to participate in and/or attend Mexican trade shows, particularly US Pavilions organized by the Agricultural Trade Office (ATO) at selected shows. A show can serve as a way to contact local distributors/sales agents, buyers and businessmen, and to become familiar with local competition. In the case of new-to-market companies, be prepared to provide support for in-store and media promotions to familiarize consumers with your products.

Personal relationships are the primary base of Mexican business relationships because they attach great importance to courtesy in all business endeavors. The concept that "time is money" should be left at the border because developing personal relationships is more important than getting immediately "down to business". In the face of a disagreement, Mexicans tend to be skilled at diplomacy and choose to avoid confrontation and loss of face. In a potential confrontation they strive to reach a consensus without having clearly defined winners and losers.

Mexicans like personal contact: they deal with *people*, not companies. It is very important for Mexicans to know *who* is offering products; *who* is the person behind the desk. Accordingly, the following would be recommended procedures in order to start a business relation in Mexico:

1. Contact the Foreign Agricultural Service's Agricultural Trade Office (ATO) in Mexico City or Monterrey, Mexico. The ATO issues a variety of reports that can assist you with information on the market potential for products and on exporting procedures. All of these reports can be accessed via the Internet.
(<http://www.fas.usda.gov/scripts/attacherep/default.asp>) The ATO organizes trade missions; provides matchmaking services and escort-interpreters; trade show assistance; professional and clerical assistance; and databases. See the contacts section below.
2. When contacting a person on your own DO:
 - a. Speak Spanish, or at least try. Mexicans appreciate foreigners trying to speak Spanish no matter if, in the end, conversations are held in English or

- something in between. Though many educated Mexicans speak English, many professional business people do not. Assume business and communication will be conducted in Spanish and have a translator, or better yet, a person working for you that speaks Spanish
- b. Take your time and respect their timing. Mexico's pace is different. For many Mexicans business meetings are seldom carried on at the office. Lunch meetings are customary, and the more important the business, the longer the lunch.
 - c. Keep in mind that office hours are different in Mexico: 9 AM to 7 PM. In addition, lunch is usually one to two hours, starting at 2 PM.
 - d. Be flexible.
3. When contacting a person on your own DO NOT:
- a. Expect them to speak English. Though most Mexicans will say they do speak English, truth is few really do.
 - b. Expect them to cope with the American way of doing business.
 - c. Rely on faxes or emails as secure means of dealing. As stated above, Mexicans deal with *people*, not with machines.
 - d. Keep a tight schedule: the person you are meeting might keep you waiting for a while, or just moving from one end of town to another might take longer than expected.

Personal face-to-face communication is critical. Personal contact with buyers is essential to initiate business relations in Mexico; a fax or an email is not considered reliable or appropriate for initial communication and will often be completely ignored. A business that is serious about sales will need to visit the market in person to explore the opportunities for their product and develop personal contacts. Follow-up by email or fax is appropriate, but having an in-country representative or making periodic personal visits is also important.

Importers/distributors are a key component to export sales in Mexico. Finding a good importer/distributor in Mexico is a critical part of success in exporting to Mexico. A good distributor should promote sales and make sure that the imported products are available at points of sale. Importers/distributors serve as a link to buyers and in-country representatives, have the expertise to handle complicated regulations and can trouble-shoot problems that imports can face at the border. Avoiding these key links in the distribution process to save money will almost always result in a loss of resources.

b. Trade Services Available and Events

US firms should consider using a variety of marketing tools to effectively distribute their products in Mexico. These promotional activities could include:

- Participating in trade shows,
- Preparing brochures and promotional materials in Spanish,
- Hosting technical seminars to inform end users, distributors and retailers of new technologies, innovations and product advantages, and
- Being involved with the ATO who continuously organize marketing campaigns to support American companies exporting to Mexico.

The Agricultural Trade Offices in Mexico City and Monterrey provide services to help you access the market. In addition to sponsoring US Pavilions, see below, the office can provide information about local distributors and contacts, and can arrange services from a contractor who can set up individual meetings in the country for a fee. These contractors, referred to as Ag Aides, can provide a link to both distributors and retailers of fruits and vegetables in

Mexico. For more information on available services, or to connect with our Ag Aides, please contact our offices in Mexico City or in Monterrey.

ABASTUR 2004

When: September 29-October 1, 2004

Where: Centro Banamex, Mexico City

Contact: Lourdes Guzmán, US Agricultural Trade Office (ATO)-Mexico City

Tel: (011-5255) 5280-5291

Fax: (011-5255) 5281-6093

Email: lourdes.guzman@usda.gov

Web Page: www.feriasalimentarias.com

Show type: Mexico's largest Hotel and Restaurant show

EXPO INTERNACIONAL NATURISTA ANIPRON 2005

When: February 11-13, 2005

Where: WTC World Trade Center, Mexico City. Sponsored by Nutrisa

Contact: ANIPRON-Asociación Nacional de la Industria de Productos Naturales, A..C.

Lic. Andrea Olaide, Organizing Committee

Tel: (011-5255) 5665-5802 or 7790 or 6733

Fax: (011-5255) 5665-9248

Email: anipron@anirpon.org

Web Page: www.anipron.org

Show type: Mexico's largest show for natural and healthy products

ANTAD 2005

When: March 11-13, 2005

Where: Expo Guadalajara Convention Center, Guadalajara, Jal.

Contact: Carlos Zertuche, US Agricultural Trade Office (ATO)-Mexico City

Tel: (011-5255) 5280-5291

Fax: (011-5255) 5281-6093

Email: carlos.zertuche@usda.gov

Web Page: www.antad.org.mx

Show Type: Mexico's largest retail and supermarket show

ALIMENTARIA MEXICO 2005

When: June 1-3, 2005

Where: Centro Banamex, Mexico City

Contact: Carlos Zertuche, US Agricultural Trade Office (ATO)-Mexico City

Tel: (011-5255) 5280-5291

Fax: (011-5255) 5281-6093

Email: carlos.zertuche@usda.gov

Web Page: www.alimentaria-mexico.com

Show type: Food and beverage show

c. Cost of Business

To calculate the final price at which a product is sold in Mexico, several aspects must come into play:

- Distance from shipping point to the customs house broker
- Duties to be paid and customs fees (in and out)
- Mexican freight and insurance to its final destination (normally a Central Market)

- Exchange rate
- Wholesaler mark up between 10-12%
- Retailer's mark up:
 - Street market (around 35%)
 - Convenience Stores (around 45%)
 - Mom and Pop Stores (around 45%)
 - Supermarket Chains (between 80-100%)

Example in Apples:

The following example expresses cases of apples. It is assumed that freight carries 1,209 cases and costs \$3,200 from Washington to Texas. The importer often uses different exchange rates to hedge exchange rate risk. In this example, the importer bought at a rate of 11.50 Mexican pesos to the dollar, and sold 11.70 Mexican pesos to the dollar when selling to retailers to hedge exchange rate risk.

Shipping to Mexico

Cost per case in the United States:	\$15.00
Inspection by Mexican Officials	\$0.50
Freight from Washington State to Laredo:	\$3.11
Customs house (duties, customs fees, bonds)	\$4.11
Mexican Freight w/insurance to Mexico City	<u>\$1.06</u>
Total Cost to Mexico	\$23.78

Selling in Mexico

Starting price (with exchange hedge)	\$24.09
Seller profit margin	\$1.50
Selling price per case to retailers	\$25.59

Retail

Cost per kg (18 kg/case)	\$1.42
Retail Mark-up (40%)	\$0.57
Selling price (per kg) to Mexican consumer	\$1.99

IV. Import Requirements

a. Tariff, taxes, quotas

Because of NAFTA most import tariffs for fresh fruits and vegetables reached zero on January 1, 2003. However, an anti-dumping duty of 46.8% is applied to Red and Golden Delicious Apples.

In addition, Mexico has a 15% value-added tax (VAT, or IVA in Spanish). Mexican Customs collects the IVA on foreign transactions upon entry of the merchandise into the country. However, this does not apply for imports of fresh fruits and vegetables. Furthermore, customs brokers use total figures to calculate their fees, which are 0.5% on average, plus any storage or handling fees.

b. Phytosanitary or Sanitary requirements

Some fresh fruit and vegetable imports like stone fruits and citrus have phytosanitary requirements put in place by the US Animal Plant and Health Inspection Service (APHIS) and the Mexican Secretariat of Agriculture (SAGARPA), which establish: when certain fumigation

methods are needed, the necessity of becoming part of a shippers list, or the requirements for exporting to an authorized importer. Most fresh produce coming from the United States or other countries must be grown in areas and packed in facilities approved by Mexican health and agriculture authorities. Mexico's phytosanitary access conditions might result in barriers for fruits and vegetable imports. Sometimes, few shippers care to or can afford to participate in the mandatory export programs. US exporters are advised to contact APHIS headquarters in Maryland for the latest requirements and approval procedures because they change periodically. They can be reached at Tel. (301) 734-8537. The APHIS website also has some pertinent information of phytosanitary requirements for shipping to Mexico. www.aphis.usda.gov

The basic Mexican import document is the Pedimento de Importacion (customs entry document), which must be presented to Mexican Customs. The NAFTA certificate of origin to receive preferential treatment must accompany products qualifying as "North American". Fruits and vegetables coming into Mexico must be accompanied by a phytosanitary certificate (obtained from APHIS), an invoice, a bill of lading and comply with applicable Mexican labeling requirements.

Mexican Customs Law is very strict regarding proper submission and preparation of customs documentation. Errors in paperwork can result in fines and even confiscation of merchandise as contraband. Exporters are advised to employ competent, reputable Mexican importers and custom brokers.

Imports of fresh fruits and vegetable are subject to certain mandatory Mexican Official Standards "NOM" (Norma Oficial Mexicana) such as NOM-008-FITO-1995 and NOM-006-FITO-1996. The former defines the phytosanitary requirements and specifications for fresh fruit and vegetable imports, and latter deals with those needed to certify the proper agricultural processing of fruits and vegetables.

c. Labeling

Fresh fruits and vegetables are imported in packaged boxes, and are sold retail to the final consumer. Some of these requirements include:

- Commercial name
- Exporter's name and address
- Country of origin
- Product description in English and Spanish
- Expiration date
- Net weight in metric units
- Importer's name, address and tax ID number

All product information should be in Spanish. Though some importers may require a PLU-Price Look Up sticker come with the product, it is not mandatory. Also, official standards regarding imports into Mexico might change from time to time and exporters are encouraged to review these items with importers or distributors prior shipping their products.

Beyond the general labeling requirements mentioned for fresh fruits and vegetables, each product has a particular NOM that regulates its importation. In order to find the NOM related to a specific fruit or vegetable-labeling requirement, please consult Secretary of Economy's web page at www.economia-noms.gob.mx.

V. Contact Information

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Col. Los Morales Polanco
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